



# City of Santa Fe, New Mexico

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Mike P. Lujan, *City Manager*

## *Councilors:*

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Matthew E. Ortiz, Dist. 4

July 1, 2004

TO THE HONORABLE MAYOR, CITY COUNCIL, AND CITIZENS OF SANTA FE:

I am pleased to submit the Fiscal Year 04/05 Budget for the city of Santa Fe. This budget was based on guarded assumptions of economic conditions and included significant one-time transfers into the general fund. Despite uncertainty, the budget maintains all basic services including the personnel, operating costs and equipment needs required to adequately support the current programs for public safety, recreational programs, and maintenance of infrastructure, community services, and administration.

The primary function of city government in Santa Fe is to provide quality customer service to its citizens in a multitude of diverse areas. The city recognizes that services should be provided as efficiently and economically as possible given available resources. In addition, the needs of the community continue to be addressed particularly as they affect children, senior citizens and lower income families. The limited availability of housing in price ranges that working families can afford is another important concern, as the median cost of a home in Santa Fe exceeds the national average.

In total, the city assists in funding 16 human services organizations and 35 children and youth programs, including health education and life skills training, self-help groups, clinic for persons with HIV, adult day care, drug therapy, tutoring, dispute resolution, child care, therapy groups for children of substance abusing parents, as well as funding assistance for a youth shelter, rape crisis center, battered women's shelter, children counseling programs, mental health programs, hot meal program, rental and utility assistance and other counseling programs. The city also continues to fund a number of after school and summer youth recreational programs.

In the area of economic development, \$385,000 was budgeted for firms involved in local economic development and \$140,000 for the continued development of a business incubator. In total, economic development initiatives amounted to \$525,000. A 1% increment of the city's General Fund state-shared gross receipts tax is allocated to economic development. This amounts to \$344,542.

The city is continuing its programs to increase the availability of affordable housing with \$500,077 from the General Fund allocated to various housing services to assist families in buying homes.

City departments were required to review and evaluate the costs and the benefits of current programs, the effectiveness of their personnel utilization, and needs and requests from the community. Many difficult decisions were required of the City Manager and City Council in evaluating department requests and programs and in allocating available resources. We are proud of the efforts of all those involved in continuing to provide quality services to the citizens of Santa Fe while striving to become more efficient and effective.

## BUDGET OVERVIEW

The city's General Operating Fund pays for the cost of running the day-to-day business of the city. Revenues are derived primarily from local and state-shared taxes, fees and services, licenses and permits, and a variety of other revenues including grants, interest income, and inter-fund transfers. Services are provided by eight major city departments.

### REVENUE

Revenue projections were formulated based on historical information and the professional judgment and analysis of the Finance Department staff. Economic information related to state-shared revenues was obtained from the State Department of Taxation and Revenue. Other economic and financial information is solicited from the State of New Mexico Department of Finance and Administration, Santa Fe County, the University of New Mexico Bureau of Business and Economic Research and various national, state and local publications and reports.

The General Operating Fund FY 04/05 *budgeted revenue* is based on total projected revenues of \$64,236,137. Compared to the *budgeted revenue* in FY 03/04 of \$62,380,086, the projected growth is 3.0%, an increase of \$1,856,051. Compared to the *actual revenue* of \$64,720,245 received in FY 03/04 and given clear indications of economic recovery, it appears that the FY 04/05 estimate is conservative; this estimate will be reviewed at midyear.

The following assumptions materially affected the formulation of the General Operating revenue budget:

1. Gross receipts tax revenues had been budgeted at close to a 5.55% increase from the prior year budget. The city continues to experience fluctuating monthly gross receipts tax revenues. The projection for FY 04/05 is .71% more than the FY 03/04 actuals.

Historic records and trends for gross receipts are also reviewed, which are as follows:

Fiscal Year 99/00	+6.04%
Fiscal Year 00/01	+2.62%
Fiscal Year 01/02	+2.55%
Fiscal Year 02/03	+4.11%
Fiscal Year 03/04	+4.84%

Projections are set conservatively at a level below the gross receipts tax revenues realized at the time of budget preparation. The level of the previous fiscal year is also considered. Since the tragic events of 9/11/01, the economic indicators have been mixed with positive factors offset by employee layoffs. Current growth trends point to increasing economic recovery. Considering Santa Fe's reliance on tourism, a highly discretionary economic segment, the relative strength of gross tax receipt revenue is stable.

2. The ¼% municipal gross receipts tax increment was approved beginning in 1994, to fund the transit system with 2/3 of the balance to go to the General Fund to make up a lost increment of gross receipts tax that the state retained and with 1/3 of the balance to fund Quality of Life programs and projects. The amount of funding to General Fund was increased by \$121,429 to \$1,475,071.

The ¼% municipal gross receipts tax increment allocation to transit increased slightly both dollar-wise and percentage-wise. Funding for the fixed route transit operations is \$3,542,877 (exclusive of encumbrances) plus a \$374,506 match for the federal grant, \$103,800 for payback of funds advanced for a required match for bus acquisitions, and an allocation of \$561,058 for the Santa Fe Ride program for a total of \$4,582,241.

## EXPENDITURES

In preparing this budget, there were a number of issues and concerns. Key goals were established, as follows:

1. Balance the General Fund matching recurring projected revenues and recurring expenditures, providing for adequate budget for current operations. For the most part, this was achieved. In light of the needs and requirements for various expenditures, this essentially brought operations to the level of the current base budget, with increases (pay packages) offset by reductions (positions). In order to have the reduced revenues cover current base, several one-time transfers to the General Fund were required.
2. Maintain cash reserves in the General Fund at 10% of expenditures.
3. Maintain key programs, including transit, affordable housing and summer recreation program. Fund Children and Youth programs (3% of state shared gross receipts tax), and Human Services programs (2% of state shared gross receipts tax), and increase the state shared gross receipts tax from  $\frac{3}{4}\%$  to a full 1% for economic development.
4. Maintain a level of capital outlay replacement in the base General Fund, which was limited by available revenue.
5. Evaluate organizational structures, operations, and technologies to increase efficiencies and reduce costs.

Despite limited resources, most of these goals were met. A number of worthy programs could have been justifiably increased; however, funding was not available.

### General Fund Programs

The General Fund is balanced; however, it continues to be stretched to maintain current programs and to support the pay plans. For a number of programs, funding has remained level for several years.

In order to balance the General Fund, \$4.5 million of base requests and \$783,250 of expansion requests were not recommended for funding. Some cash balances were transferred to supplement available revenue, and risk funds were charged for pre-employment, police and fire physicals, employee assistance, and safety supplies in the amount of \$229,100. A vacancy credit of 3.5% was applied. Although these vacancies generally occur without significant impact, departments must exercise caution in filling positions as they become vacant.

After discounting one-time, non-recurring expenditures and encumbrances of \$990,340 contained in the FY 03/04 budget, the expenditure budget is approximately 3% greater than the Fiscal Year 03/04 appropriation. This resulted from the impact of the pay plans, utilities, fuels and liability insurance, as well as increased allocations for Children and Youth, Human Services, Economic Development, the HOME grant, senior grants, city share of the COPS in schools, and library parking in the FY 04/05 budget.

### Employee Pay Plan

The budget incorporates the three union contracts negotiated during the past fiscal year as well as provision for non-union pay adjustments.

The non-union pay plan was approved including an increase of 3% to begin the first full pay period in July 2004.

The American Federation of State, County and Municipal Employees (AFSCME) contract was approved with provision for a three-part increase. The minimum AFSCME pay rate was increased to \$9.50/hour. A \$.29/hour adjustment was accorded to all non-probationary AFSCME employees. An additional seniority adjustment for non-

probationary AFSCME employees was also accorded, based on hire date, ranging from \$.085/hour for six months to four years of service up to a high of \$.25/hour for service of fifteen years or more. The contract also provides for a further increase effective the first full pay period in February 2005, based on the same seniority table, if gross receipts tax revenues exceed budget projections and if approved by the City Council.

The Fire union contract was approved with a 2% cost of living adjustment in July 2004. The Fire contract also provides for a further increase for non-probationary employees of 1% effective the first full pay period in February 2005, if gross receipts tax revenues exceed budget projections and if approved by City Council. The 1% longevity increases based on anniversary dates, promotions of 10% for firefighters II and III, and various incentive adjustments will continue.

The Police union contract includes a 2-step increase effective the first full pay period in July 2004 for non-sworn personnel, and no step-increase for sworn personnel. The Police PERA City-contribution for sworn officers was increased to the plan maximum of 26.65% of salary, resulting in a reduction of employee contributions by 50%. The amended contract also provides for an additional one-step longevity pay increase for all non-probationary personnel effective the first full pay period in February 2005, if gross receipts tax revenues exceed the budget projections and if approved by City Council in May 2004, by the amount required to pay this increase in the General Fund. The promotions of 10% for police officers II, III, IV, as well as incentive pays, will continue.

#### Capital Outlay

For FY 04/05 the only equipment approved was \$11,429 for the replacement of computers. It is anticipated that excess General Fund cash will be available to reallocate for equipment and vehicles after this fiscal year close-out.

The city is continuing its program to provide video cameras in all police units. Due to limited capital outlay resources in the General Fund, 30 video cameras, 10 radar units and 11 police vehicles were funded from the 1/16% Police GRT Fund.

The State Fire Fund was used to budget purchase of a jaws of life extrication device, a breathing apparatus unit and hazmat software, and the Fire Capital Equipment Reserve funded the purchase of 7 life pack units.

#### Human Services Providers

For FY 04/05 the city of Santa Fe continued its commitment to support the various human services agencies by appropriating \$689,084 from the General Operating Fund which represents a 2% allotment of the state-shared gross receipts tax revenue projection.

#### Children and Youth Activities

For FY 04/05, the City Council appropriated \$1,067,537 for the Children and Youth Activities Program, which represents the allotment of 3% of the state-shared gross receipts tax revenue projection (with some carryover from the prior year).

In other fund programs, the following appropriations were approved:

#### Santa Fe Trails Bus System

The City Council recommended funding in the amount of \$6,768,349 for the transit system, grant matching, Ridefinders, Santa Fe Ride and Welfare-to-Work programs. This included a U.S. Department of Transportation grant providing \$590,979 for FY 04/05 transit operations. New FY 04/05 U.S. Departments of

Transportation and Health and Human Services grants totaling \$1,159,633 provided most of the revenue to support the expanded Welfare-to-Work transit program.

#### Solid Waste Management

The Solid Waste Enterprise Fund operations revenues and expenses are balanced. The 18.35% increase in rates for commercial and residential collection in FY 03/04 provided needed revenue to balance and support the recycling program without a transfer from general fund. The rate increase will also enable Solid Waste to initiate an internal repayment plan for an advance to replace critical equipment.

#### Water Operations Enterprise Fund

The budget is balanced for current operations, and a plan has been put in place to start funding reserve funds recommended by the bond ordinance and fiscal management. The rate covenant requires revenue to be in excess of operations and maintenance and 125% of the debt service, which the fund has been able to do after a significant rate increase in FY 01/02. At this point, projects are being adequately funded from the 2001 CIP bond issue proceeds, available water cash balances, and state financing and grants.

Drought conditions in the southwest continue to affect water supply, and a number of conservation surcharges are applicable at various stages of projected water supply shortfalls. Projects are in the planning phase to increase the water supply with funding requirements in excess of \$100 million over the next five years. A capital master plan and a related finance plan have been completed. An election is scheduled in March 2005 for consideration of a 1/4% gross receipts tax increment to be allocated to water projects.

#### Wastewater Operations

A rate increase was approved in FY 03/04 to generate revenue to fund the \$16,000,000 sludge handling facility required by the state before 2007 as well as other projects. It appears that the revenue has not reached the forecast level primarily due to the fact that wastewater rates are based on water rates, and water consumption has been significantly decreased by water conservation surcharges. Funds are available for design of the sludge handling facility; however, financing will not be undertaken until all other wastewater funds available are expended and construction is underway and revenues are reviewed at that point.

#### Santa Fe Convention & Visitors Bureau (SFCVB)/Lodgers Tax

The programs funded to some degree from Lodgers Tax are the Sweeney Convention Center, Convention and Visitors Bureau, transit routes in the downtown/museum areas, overtime for police, fire, and sanitation services for special events, and administration of the tax. The city's tourism advertising contract is budgeted at \$910,366. An additional \$100,000 has been granted to support the Lensic, Santa Fe's Performing Arts Center in exchange for marketing support.

A new increment of the tax was enacted during the 2003/2004 state legislative session that allowed increasing the maximum tax rate from 6% to 7%. The additional increment, as well as two other increments, is dedicated to building a new convention center. The additional bonding capacity from this additional increment will support a proposed \$42 million project. Preliminary planning and the archaeological review for a new facility are underway.

#### Municipal Recreation Complex

The Municipal Recreation Complex (MRC) is intended to be self-supporting through user fees to cover operations, maintenance and its associated debt service. The MRC continues to experience shortfalls in revenues and annual subsidies have been required to provide funding to supplement the debt service for the playing fields.

Efforts to reduce operating overhead include consideration of bringing management of the MRC in-house. Options under consideration include having a MRC director or head pro; contracting individually with the pro(s)

while still allowing compensation for lessons; or having all as city employees. Related issues include administration of the fields and the leased golf carts. The budgeted subsidy for FY 04/05 is \$788,349.

#### Genoveva Chavez Community Center

The Genoveva Chavez Community Center (GCCC) was established to be operated with user revenues and a 1/16% gross receipts tax increment to cover its operations and maintenance. In its first year of operation, the user revenues and the tax subsidy allowed it to be self-supporting. An operating subsidy of \$296,551 from gross receipts tax cash balances was required to balance revenue and expenditures for FY 04/05. Facility and interest revenues support 44% of the budget with the balance coming from the gross receipts increment allocated to the GCCC and the subsidy.

### ECONOMIC FORECAST

#### U.S. Economy

The national economy is continuing to improve but the pace slowed markedly in June and July 2004. The production of goods and services is proceeding at a healthy pace. Real gross domestic product (GDP), however, dropped to 2.8% in the second quarter of 2004, down from 4.5% in the first quarter.

Consumer expenditures, which along with government spending pulled the economy out of recession and has allowed the expansion to continue, registered slower growth of 1.6% in the second quarter of 2004 after averaging more than 3% in the previous two quarters. High oil prices, concerns about Iraq and fears of further terrorist attacks have contributed to consumer caution, but the slowdown in job growth, declining average real wages, and rising indebtedness have also been important factors.

Despite the pause in the expansion, the Federal Reserve has begun adjusting the federal funds rate to compensate for projected higher rates of economic expansion. The Federal Reserve is expected to increase rates further later in 2004 to counter the risk of inflation.

#### New Mexico Economy

The New Mexico economy performed relatively well during the past three years, averaging 1.3% quarterly (year-over-year) employment growth during that period, which the U.S. economy averaged -0.5% growth for the same period. In the second quarter of 2004, nonagricultural employment growth was at a 2.0% annual rate, double the rate for the nation as a whole.

New Mexico personal income increased at a 7.0% rate during the first quarter of 2004. The second quarter unemployment rate was 5.5%, down from 6.4% a year earlier, and below the U.S. rate of 5.6%.

The current outlook for the New Mexico economy is good, but not exceptional. Growth in nonagricultural employment is expected to be 1.9% in 2004 and 2.4% in 2005, but the growth rate will ease slightly to 2.3% in 2006. Personal income growth is expected to follow a similar path, with gains of 6.4% in 2004, 5.9% in 2005, and 5.6% in 2006.

#### Santa Fe Economy

The Santa Fe metropolitan statistical area (MSA), as defined by Santa Fe and Los Alamos counties, is second in economic concentration to Albuquerque and third after Albuquerque and Las Cruces demographically in the state. New retail development continues in both the Albuquerque and Santa Fe MSAs.

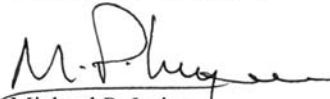
Santa Fe's unemployment has been significantly less than the state average. Santa Fe's unemployment was 3.5% in 2002, compared to 6.4% statewide in nonagricultural employment. For 2004 and 2005, unemployment is forecasted to be 3.3% and 3.5%, compared to 5.5% statewide.

Personal income grew in Santa Fe at a 6.3% rate in 2003, compared to 4.5% statewide. Personal income in 2004 is expected to grow 6.3% locally, the same as statewide.

The trend in gross receipts tax revenues suggests that this year's growth will be stronger than last year's growth. The final gross receipts tax report for FY 03/04 indicates that gross receipts collected grew by 4.94% over that received in FY 02/03. Continued improvement is expected in FY 04/05.

The economic forecast information on the U.S., New Mexico and Santa Fe economies were extracted from material in the University of New Mexico's "The FOR-UNM Bulletin: A Quarterly Economic Forecast of the New Mexico Economy".

Respectfully submitted,



Michael P. Lujan  
City Manager